



Davis Graham & Stubbs LLP

March 12, 2003

Anthony S. Trumbly, Esq.
Assistant Attorney General
Natural Resource and Environmental Section
1525 Sherman Street, 7th Floor
Denver, Colorado 80203

Re: Dolores River - Water Quality Assessment

Dear Tony:

The enclosed Fact Sheet has been prepared for discussion with the Town of Rico. We look forward to discussing the non-profit concept with you as we make progress on the water quality assessment with the Division.

I have also enclosed a copy of Amendment No. 1 to Upper Dolores River and Silver Creek Basin Water Quality and Discharge Monitoring Summary for the October 2002 sampling event, dated December 23, 2002.

Sincerely,

A handwritten signature in black ink, appearing to read "WJ Duffy".

William J. Duffy

for

DAVIS GRAHAM & STUBBS LLP

WJD/amg

Enclosures

cc: Mark Walker, CDPHE (w/enc.)
Sheldon Muller, EPA Regional Counsel (w/enc.)
Alan Au, Esq. (w/o enc.)
Chuck Stilwell (w/o enc.)

FACT SHEET

FORMATION AND OPERATION OF NON-PROFIT CORPORATION TO OWN AND OPERATE ST. LOUIS TUNNEL WATER TREATMENT SYSTEM

Atlantic Richfield Company ("AR") and Rico Renaissance and its affiliates ("RR") have prepared this Fact Sheet to describe a cooperative approach, in concert with the Town of Rico, for the ownership and future use of the property in the vicinity of the St. Louis Tunnel and associated settling ponds system. This Fact Sheet provides an overview of the recommended approach to achieve AR's, RR's and the Town's mutual goals for environmental protection and future redevelopment of the property (generally described as the Bedrock Light Industrial Area).

A key element of the framework is the formation of an independent corporate entity ("New Corp") to own the land, any new treatment plant and related treatment works in the North Rico area. It is envisioned that New Corp (or the associated funding Trust) would own the treatment building, related real property and would operate the treatment system under a discharge permit issued by the State of Colorado. New Corp would employ or utilize contractors to operate the treatment system and satisfy all reporting obligations required by the State permit.

New Corp is proposed as a non-profit corporation formed under the laws of the State of Colorado. AR, RR and the Town will participate in management of the non-profit corporation. Each organization would be a member of the non-profit corporation, and each will appoint someone to sit on the corporation's Board of Directors. These Individuals will have oversight and management authority to determine the decisions and actions of the corporation. Specific components of this general structure are described below.

Lands to be Transferred to New Corp: The following transfers of land are contemplated following establishment of New Corp. It is anticipated that additional reclaimed lands in and around Rico (e.g., Silver Swan, Columbia, Argentine, Rico Boy, Santa Cruz and others) may be transferred to New Corp, where such transfers are consistent with the purposes of the corporation (e.g., open space, light industrial development, etc.).

- RR through its affiliate, Rico Properties LLC, will transfer land on which the St. Louis tunnel and associated treatment ponds are located (commonly known as the Martha and Mervin Lode tracts), as well as all existing improvements on said lands, reserving certain development rights.
- Through a land exchange with the U.S. Forest Service, RR will transfer or direct that USFS transfer all of its interests in property underlying portions of the existing settling ponds (part of the Homestake and Little Cora Consolidated Placer, M.S. 410) to New Corp.
- RR will obtain record title to and transfer its full interest in the Denver and Big Strike tracts (M.S. 7601) to New Corp., again with the potential to reserve certain development rights.

- The Estate of Wayne Webster will transfer all of its interests in property underlying portions of the existing ponds (part of the Homestake and Little Cora Consolidated Placer, M.S. 410) to New Corp.

Business Purposes of New Corp: A description of AR's plan for integration of water treatment plant operations and maintenance, and sequencing of land reclamation with potential redevelopment is included as Attachment 1 to this Fact Sheet. A summary of New Corp legal requirements is set forth in Attachment 2.

The land surrounding the St. Louis tunnel is relatively flat and open. In addition to its use to support water treatment operations, the North Rico area is of interest to the Town and RR for redevelopment. In particular, the North Rico area may accommodate new light industrial businesses and potentially relocation of certain County maintenance operations and other existing businesses now within the Town. As well, redevelopment may include other public/civic uses, and sports facilities, that are coordinated with and do not interfere with the water treatment uses of the property. Any future redevelopment must be compatible with New Corp's water treatment and reclamation goals, and New Corp itself would not finance redevelopment. It could facilitate development by making lands available for development through transfer to the Town or by way of easement for development purposes.

The Articles of Incorporation and organizing Resolutions of the corporation would be prepared to accomplish these compatible land use and redevelopment goals. AR would be the lead decision maker on matters related to water treatment operations and related land uses. The Town and RR would be the lead decision makers on matters related to redevelopment of the North Rico area.

The stated mission of New Corp will be to ensure the treatment system operates properly to protect Dolores River water quality, and solid waste management requirements are integrated with redevelopment of the area.. New Corp will employ or contract for qualified technical support to operate and maintain the water treatment system and report all water quality monitoring results required under the State discharge permit.

The Town's participation in New Corp will not make it responsible for the operating costs of the treatment system. If the treatment system fails to treat the St. Louis discharge water to the standards required by the discharge permit, any financial penalties and the need to take steps to correct the failure would be the legal and financial obligation of New Corp (with funding from AR as described below) and not the Town.

The organizing Resolutions adopted by New Corp would anticipate that certain lands, by vote of the corporation, may be annexed into the Town, with certain incentives reserved to RR to participate in redevelopment activity. As well, the Resolutions would contemplate that the St. Louis Tunnel water treatment system may be incorporated in the future into a more comprehensive sewer system operated by or in cooperation with the Town.

Funding For New Corp: Atlantic Richfield will capitalize the non-profit corporation initially and over time to provide sufficient funds to construct, operate and maintain a treatment system to satisfy the water quality permit requirements issued by the State.

AR will fund New Corp through establishment of a trust, with provisions for termination of the trust in the event water treatment is no longer required to meet New Corp's regulatory obligations. AR reserves its right to seek contribution from other parties, including NL Industries, Inc. that may be legally liable for water treatment of the St. Louis Tunnel discharge and related obligations, if such parties do not participate in the funding of New Corp directly.

Timing for Formation of New Corp: AR is cooperating with the State of Colorado in completing a study of Dolores River water quality. The Water Quality Assessment (WQA) will provide important information relevant to identification of effluent limits for treated water from a new St. Louis Tunnel treatment system which protect Dolores river water quality. AR anticipates that the WQA will be completed in Spring 2003 and support application of the lime precipitation and pond settling treatment process to treat discharges from the St. Louis Tunnel through a rehabilitated settling pond system.

Formation of New Corp will follow completion of the WQA and agreement with the State of Colorado upon a conceptual design for the water treatment system and related solid waste management requirements. Upon formation of the corporation under State law, the real property transfers to New Corp would be completed. It is anticipated that AR (and other responsible parties funding construction) would seek agreement with the State upon an enforceable schedule for construction of a treatment system, rehabilitation of the ponds system and related land reclamation, and submittal of a permit application for discharges to the Dolores River from the new treatment facility.

Attachment 1
Narrative and Reclamation Map

Reclamation and Brownfields Redevelopment Concept Plan

Introduction

The goal of this plan for the North Rico area is to protect human health and the environment, through water treatment and land reclamation, while providing an area that may be prepared for light industrial development. In order to accomplish the first part of the goal, a sufficient quantity of acreage will be required to be set aside to contain the necessary water treatment facilities, solids handling and drying areas, and final storage locations. Secondly, to make available an amount of acreage for Brownfields redevelopment, it will be necessary to coordinate the water treatment and reclamation activities and the results and recommendations from the Targeted Brownfields Assessment currently being conducted by the Colorado Department of Public Health and the Environment (CDPHE) into the conceptual plan for reclamation and redevelopment. Although the results of this assessment are not due until March 2003, the following proposal provides a concept plan for that purpose. Further development and implementation of this plan is also contingent on the completion and results of the Rico/Dolores River Water Quality Assessment being performed by CDPHE.

Reclamation Area Requirements

Figure 1 provides a general view of the areas under consideration for reclamation and redevelopment in the North Rico area. All the areas that are shaded gray have been identified as areas that will be permanently reserved for reclamation activities. These areas are predominately the existing wetlands and settling ponds to be used in the water treatment process. The reclamation areas in the northern portion of the Martha and Mervin tracts, contain acreage that is on the western slope of Telescope Mountain and would otherwise be considered challenging redevelopment sites. Next, the acreage that surrounds the St. Louis Tunnel will be reserved for the installation of water treatment facilities.

The existing water treatment pond system including Ponds 18, 15, 14, 12, 11, 10, 9, 8 and 7 will remain in operation, while the area containing former Ponds 16/17 will be used for solids handling and drying areas. To protect and aesthetically integrate these reclamation activities with adjacent redevelopment, an eight foot cedar fence will be installed on the east side of Ponds 16/17 and on the north and east sides of Pond 18, as shown on Figure 1. In addition, a similar type of fence will be constructed on the western and southern sides of the water treatment facilities area.

The area identified as "Pond 13 Reclamation/Redevelopment Area" is first required for reclamation and may later be included within the redevelopment area. This low area is targeted for solids storage over the next 10 to 20 years. Once fill activities are complete, the surface will be reclaimed with a suitable cap that will provide a base for redevelopment purposes.

North Rico Redevelopment Concept

Areas shown on Figure 1 as hatched will be available for light industrial redevelopment, at some point in the future, as described below.

The area labeled as "Upper North Reclamation Area" on Figure 1 is also in the northern part of Martha and Mervin tracts and can be used immediately for light industrial redevelopment over the next 10 to 20 years. However, once Pond 13 has been filled and reclaimed, this area may then be required for solids storage. In the meantime, this 3.2-acre area can be used for temporary light industrial use. Typical uses may be road and building material storage or seasonal parking lots for county road equipment.

South of the Upper North Reclamation Area, Figure 1 indicates the "North Redevelopment Area" and the "Middle Redevelopment Area". These two areas are comprised of 7.85 acres of land that are immediately available for redevelopment. A new road system, also shown on Figure 1, is proposed to provide improved access to not only the redevelopment areas but also to the water treatment facilities and reclamation areas. Possible uses for these areas could be the relocated County Maintenance Barn, auto and truck repair facilities, propane storage and distribution, metal working shops, log home manufacture and staging, lumber and hardware retail or special new town business incubator units.

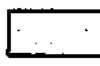
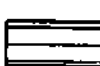



The Pond 13 Reclamation/Redevelopment Area will also become available for redevelopment after the solids disposal and base cap placement occurs, as described above under the Reclamation Area Requirements. This 4.5-acre area, once filled and reclaimed, may be suitable for light industrial or recreational (ball field) purposes.

It is important to note that the areas identified are proposed only as Concept #1. It is expected that as users are identified and their actual needs are determined that the design may change. For example, if the Town of Rico decides that the new County Maintenance Barn should be located in a portion of the North Redevelopment Area and only 2 acres are needed, then the remaining acres would be subdivided for another potential use in the future.

In order to put the ownership of the property considered for reclamation and redevelopment into perspective, Figure 1b provides detailed ownership lines overlain on the North and Middle Redevelopment Areas as well as the North Reclamation Area.

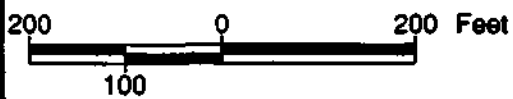
Legend

Reclamation and Redevelopment
Explanation by Area

-  Reclamation Area (gray area is permanently reserved for reclamation and water treatment facilities)
-  North and Middle Redevelopment Areas (areas immediately available for light industrial redevelopment after initial reclamation)
-  Upper North Reclamation Area (area to be used for temporary development initially until needed for reclamation in the future)
-  Pond 16/17 Reclamation Area (assumed to be needed for solids drying and management until reclamation requirements fully defined)
-  Pond 13 Reclamation /Redevelopment Area (potentially developable after solids deposited over the initial period of water treatment (5 to 20 years))

Note: Topography and Pond Elevations are from 1995.

Topography north of the St. Louis adit and pond elevations have changed.



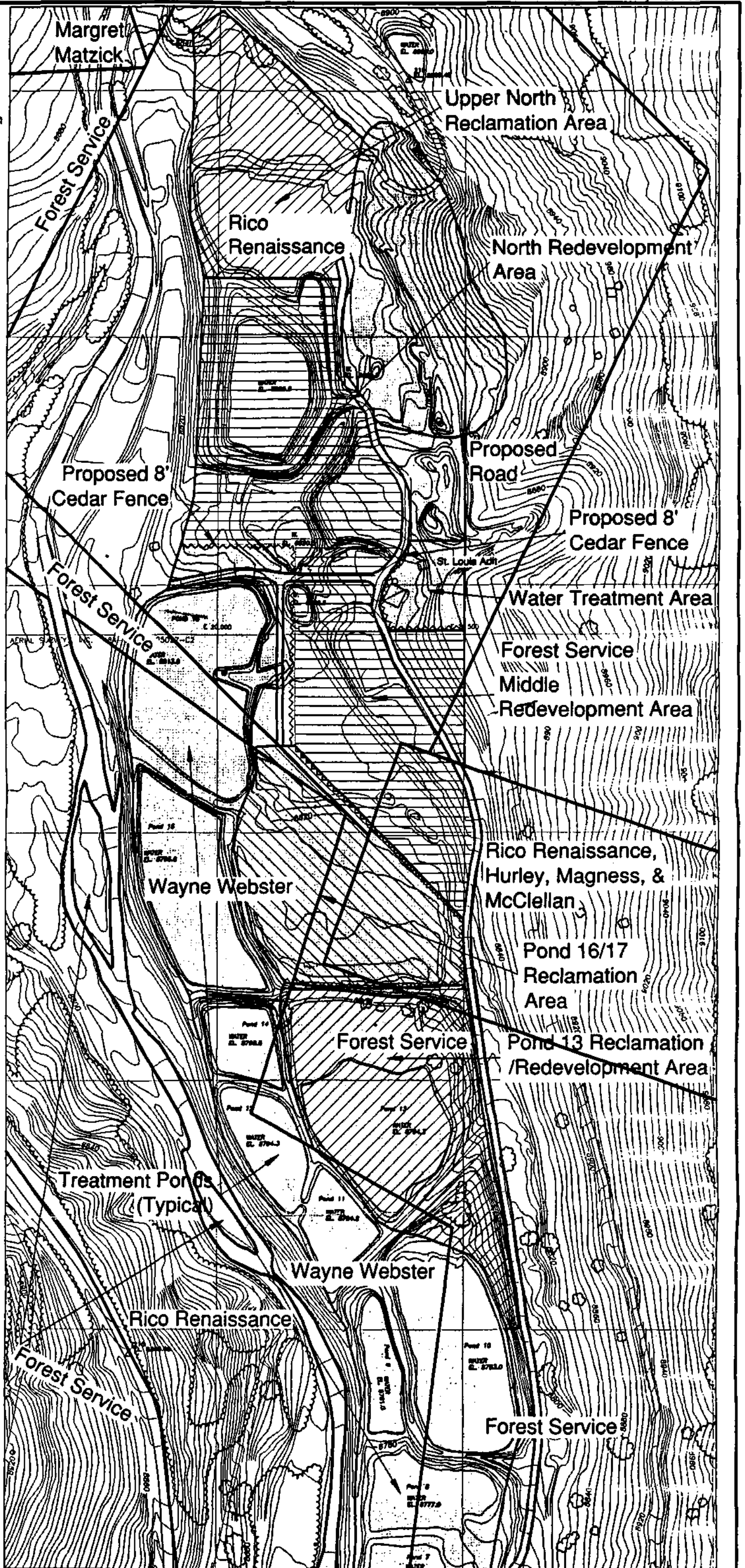
PROJECT: AARC050105.00

DATE: 2/25/2003

FIGURE 1b

ATLANTIC RICHFIELD COMPANY
NORTH RICO RECLAMATION/REDEVELOPMENT AREA
RICO, COLORADO

7837 W. 100th Ave., Suite 100
Denver, CO 80231-4415
Phone: 303.441.1111 Fax: 303.441.1115



Attachment 2
New Corp – Detailed Summary

12. **Directors' and Officers' Insurance:** Each member may elect to obtain insurance for its participation in New Corp.
13. **Transfer of Interests:** No member may transfer its interest in the corporation
14. **Duration:** The duration of the corporation shall be perpetual.
15. **Dissolution:** Dissolution can only be by majority vote of the Directors.
16. **Contributions:** Contributions of the members will be as provided for in the Organizing Resolutions (e.g., for RR – transfer of land as described above, and reserved right to participate in future development; for AR – provision of operating funds for water treatment purposes and land reclamation; for Town – expertise, direction and participation in guiding future development of North Rico area)
17. **Purpose:** to manage, fund and oversee the proper treatment of water discharges from the St. Louis Tunnel, operation and maintenance of the treatment and pond system required therefor, to hold and satisfy the obligations set forth under a State of Colorado permit for discharges from said treatment system so as to improve the environmental quality of the Town of Rico and its surroundings; and to facilitate the development of properties owned by the corporation in cooperation with the Town of Rico, and any other lawful purpose.
18. **Collateral Agreements to be Prepared:** A separate Trust Agreement must be prepared to establish the Trust, and fund the water treatment-related obligations of New Corp. The Trust Agreement will include, without limitation, provisions for capitalization of New Corp, for future funding of operation and maintenance, as needed, and termination of the Trust in the event the water treatment obligations of New Corp are terminated. As between RR and the Town of Rico, a plan is required to describe the rights of the Town and RR and the respective roles of each member in future development of the North Rico lands owned by New Corp. When prepared, the Town and RR plan would likely be adopted by board resolution.